

Message Text

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ACTION EUR-12

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FM AMEMBASSY BUCHAREST

TO SECSTATE WASHDC 4081

USDOC WASHDC

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TAGS: EIND, EEWT, RO

SUBJECT: COOPERATION PROJECTS BETWEEN GOR AND US FIRMS:

EMBASSY COMMENTS

REF: (A) BUCHAREST 3869; (B) STATE 189810

1. SUMMARY: GOR AND EMBASSY LISTS OF ONGOING DISCUSSIONS WITH U.S. FIRMS PROVIDE A USEFUL MEASURE OF THE CURRENT POTENTIAL FOR COOPERATION. SUBSTANTIVE OR PROCEDURAL DIFFERENCES BETWEEN GOR AND US FIRMS ARE NOT OBVIOUS FROM THE LISTS AND ARE SOMETIMES BEST REFLECTED IN CASES NOT EVEN LISTED. THESE DIFFERENCES CAN DETERMINE HOW MANY DEALS SUCCEED AND WILL INFLUENCE THE EXTENT TO WHICH US FIRMS WILL RESPOND TO NEW OPPORTUNITIES. AT THE MOMENT, OVERALL PROGRESS APPEARS BETTER THAN EARLIER THIS YEAR, PERHAPS IN PART BECAUSE OF THE GREATER ATTENTION BEING GIVEN TO COOPERATION BY THE MINISTRY OF FOREIGN TRADE. END SUMMARY.

2. GOR AND EMBASSY LISTS OF COOPERATION PROJECTS (REFTEL A) PROVIDE A STATUS REPORT OF CURRENT DISCUSSIONS. ALTHOUGH INTENDED TO SHOW IN EACH CASE WHERE THE ACTION STANDS, THERE IS NO IMPLICATION INTENDED IN EITHER LIST THAT EITHER SIDE HAS UNDULY DELAYED PROGRESS--IN SOME CASES THE BALL HAS BEEN RETURNED VERY RECENTLY. FLORESCU SAID IN JULY 31 MEETING THAT IN NONE OF CASES ON GOR LIST WAS HE ASKING USG TO MAKE AN APPROACH TO US COMPANIES. HOWEVER, IT WAS UNDERSTOOD THAT AFTER FURTHER STUDY, USG OR GOR MIGHT WISH TO

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DISCUSS A CASE IN GREATER DETAIL, AND THAT IF PROBLEMS OF

COMMUNICATION DEVELOP, WE WOULD BE PLEASED TO ASSIST. (FOR
EXAMPLE, THE EMBASSY ATTEMPTED TO PLAY SUCH A ROLE IN PROJECT
35, WHEN THE MINISTRY OF LIGHT INDUSTRY AND CLUMKE
SCHWEBEL BEGAN TO DISTRUST EACH OTHERS' INTENTIONS.)

3. SOME OF THE PROJECTS ON THE GOR LIST REFTEL A MAY DIE
OUT FOR LACK OF US INTEREST IN THE TERMS OR CONCEPT
PROPOSED, OR UNWILLINGNESS OF GOR TO PURSUE COOPERATION
PROJECTS IN FLEXIBLE MANNER.

A. THE FIRST TWO PROJECTS APPEAR TO REQUIRE EXPORT
CONTROL CLEARANCE, AS A MINIMUM, DEPENDING UPON THE TYPES OF
COMPONENTS INVOLVED. A REQUEST FOR MAJOR TRANSFER OF NUCLEAR
TECHNOLOGY MIGHT EVEN RAISE POLITICAL QUESTIONS IN THE US.
USDOC 11961 SUGGESTS TO US THAT PROJECT 18 AND PROBABLY 19
MAY BE UNLIKELY TO RECEIVE EXCON APPROVAL.

B. SEVERAL ITEMS WHICH ARE SUPPOSEDLY AWAITING
GENERAL ELECTRIC RESPONSE MAY ALREADY BE DEAD ISSUES -- PROJECTS
1 AND 17 APPARENTLY REFLECT UNSUCCESSFUL GOR PROPOSALS
DURING AVRAM VISIT IN APRIL (SEE STATE 098440). WE HAVE
NO RECENT REPORT ON 16, NO WONDER WHETHER IT MAY NOT BE
IN SAME CATEGORY. ON THE OTHER HAND, G.E.'S CORPORATE
DECENTRALIZATION MAY HAVE CONFUSED GOR, IF G.E.'S INTEREST
AND INTENTIONS ARE GREATER THAN THAT SHOWN IN ITS CONTACTS
WITH GOR.

C. EMBASSY DISCUSSION WITH FARREL REPS PRIOR TO
MEMORANDUM CITED REFTEL A PARA 8 INDICATED NO GREAT
INTEREST IN ROMANIAN PRODUCTION, BUT A REALIZATION THAT
WILLINGNESS TO CONSIDER COOPERATION MIGHT BE IMPORTANT TO
EXPORTS TO ROMANIA IN WHICH THEY WERE VERY INTERESTED. IT
MIGHT BE USEFUL TO CHECK WITH FARREL DIRECTLY OR WITH CHRIS
STOWELL OF WJS INC. (WASHINGTON DC) TO SEE WHETHER THIS IS
A LIKELY POSSIBILITY OR NOT.

D. ALTHOUGH DIFFERENT MODELS ARE INVOLVED IN TRACTOR
PROJECTS 4 AND 13, THERE IS ALREADY SOME CONFLICT BETWEEN
UNIVERSAL TRACTOR'S OBLIGATIONS TO LONG AND TO FIAT. FIAT
RECEIVES TRACTORS AS PAYMENT FOR PRESENT LICENSES
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AND HAS SHIPPED THEM TO FIAT-ALLIS IN THE US EVEN THOUGH
LONG IS THE EXCLUSIVE REPRESENTATIVE FOR MARKETING ROMANIAN
TRACTORS THERE. IF NOT RESOLVED, THE CONFLICT COULD MAKE
IT DIFFICULT FOR GOR TO PURSUE BOTH OF THESE PROJECTS.

E. IT IS PROBABLY TRUE OF PROJECT 37 THAT BUCYRUS AND
JOY INTERNATIONAL HAVE SHOWN LITTLE OR NO INTEREST IN
PROPOSALS BY THE MINISTRY OF MINES FOR LOW-GRADE COPPER

MINING. BUT SINCE THAT TIME THE MINISTRY HAS HAD AMPLE OPPORTUNITY TO DISCUSS THE PROJECT WITH FIRMS WITH GREATER INTEREST, DURING THE MINING EQUIPMENT TRADE MISSION IN APRIL. EVEN MORE RECENTLY, THE MINISTRY SHOWED NO INTEREST IN INQUIRIES BY KENNECOTT (SEE BUCHAREST 2471 AND PREVIOUS). WHEN EMBOFF POINTED THIS OUT JULY 31, MINISTRY OF FOREIGN TRADE OFFICIALS MADE A NOTE TO LOOK INTO IT.

F. ALTHOUGH EMBASSY IS NOT FAMILIAR WITH PROJECT 38, THERE MAY BE A COMPARABLE LACK OF EFFORT ON THE PART OF THE MINISTRY OF MINES. NOT SHOWN ON THIS LIST, AND ALSO AT A VERY PRELIMINARY STAGE, IS THE GOR PROPOSAL FOR COOPERATION IN MINING BEACH SANDS FOR NICKEL AND TITANIUM IN ROMANIA AND TANZANIA. IN THIS CASE A PARTICIPANT IN THE TRADE MISSION, NL INDUSTRIES, HAS TRIED HARD TO FOLLOW UP, AND WE DO NOT KNOW WHETHER THIS POTENTIAL PROJECT IS STILL ALIVE OR NOT.

4. TO THE BEST OF OUR KNOWLEDGE, SEVERAL OTHER COOPERATION PROJECTS WITH US FIRMS ARE PROCEEDING REASONABLY WELL, IF NOT SPEEDILY. ROLLWAY (PARA 6 REFTTEL A) HAS REACHED AGREEMENT ON TECHNICAL SPECIFICATIONS; FLORESCU'S COMMENT REFLECTS FACT THAT JAPANESE COMPETITION IS OFFERING DIFFERENT TECHNOLOGY. CITIES SERVICE (28) AND GENERAL TIRE (34) HAVE BEEN PARTICULARLY CONCERNED WITH THE LARGE SCALE OF ROMANIA'S AMBITIONS, ESPECIALLY SINCE THEY ARE CONSIDERING EQUITY INVESTMENT AND JOINT MARKETING; WE ARE THEREFORE NOT SURPRISED AT GOR DELAYS OR THE COMPANIES' NEEDS FOR INFORMATION AND CONFIDENCE-BUILDING. GOR BELIEVES AGRICO (25) IS STILL VERY MUCH ALIVE. PFIZER (26), AND AVON (32) AND SINGER'S OFFICE CALCULATORS (21) HAVE BEEN DISCUSSED OFF AND ON OVER SUCH A LONG PERIOD THAT WE ONLY HOPE MFN WILL GIVE THEM NEW STIMULUS.

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5. SOME DISTINCTIONS CAN BE MADE IN THE WAYS DIFFERENT GOR MINISTRIES HAVE APPROACHED COOPERATION. ALTHOUGH THE MINISTRY OF HEAVY MACHINE BUILDING HAS CONTRIBUTED THE MOST PROJECTS IN REFTTEL A (1-15 AND 41), THE MINISTRY OF CHEMICAL INDUSTRY (23-24) WOULD HAVE MORE IF IT USED THE SAME DEFINITION OF COOPERATION. THE CHEMICAL INDUSTRY HAS THE MOST EXPERIENCE IN WORKING WITH US COMPANIES AND USUALLY OFFERS THE MOST CONTACT WITH END-USERS AND DESIGN ENGINEERS IN EARLY STAGES OF NEGOTIATION; ALTHOUGH NEGOTIATIONS MAY BOG DOWN, WE SELDOM HEAR OF BASIC MISUNDERSTANDINGS. THE MINISTRY OF MACHINE TOOLS AND ELECTROTECNOLOGY (16-22) HAS HAD MAJOR CHANGES IN TOP OFFICIALS SINCE EARLY 1975, WHICH MAY HAVE PRODUCED LONG GAPS IN DECISION-MAKING AND UNWILLINGNESS TO MORE FORWARD WITH NEGOTIATIONS. THE MINISTRIES OF LIGHT

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INDUSTRY (35, 36) AND MINES, PETROLEUM AND GEOLOGY (37-39) HAVE BEEN HARDER FOR THE EMBASSY TO UNDERSTAND AND WE ARE NOT SURPRISED THAT THEIR EFFORTS WITH US FIRMS HAVE PRODUCED LITTLE SO FAR. THE POLICY ISSUES INHERENT IN PROJECT 39 ARE, OF COURSE, WELL BEYOND THE AUTHORITY OF THE MINISTRY, AND WE ARE NOT SURPRISED THAT NO BASIC DECISIONS HAVE BEEN TAKEN (DESPITE EARLIER SUGGESTIONS THAT THEY WOULD BE), ASSUMING THAT THE OUTLOOK FOR ONSHORE OIL PRODUCTION IS NOT DISTURBING TO GOR. PROJECT 40, IN THE US, FALLS DIRECTLY UNDER THE MINISTRY OF FOREIGN TRADE AND INTERNATIONAL ECONOMIC COOPERATION (MFT).

6. EARLIER THIS YEAR, REORGANIZATION OF MFT GAVE THE COOPERATION DEPARTMENT SEVERAL MORE TOP OFFICIALS AND A LARGER NUMBER OF OFFICES (PROBABLY INCLUDING AN OVERALL STAFF INCREASE), PUTTING IT ON A PAR WITH THE REST OF THE MINISTRY WHICH HANDLES TRADE ISSUES. SINCE THEN WE HAVE SEEN SIGNS OF A GRADUAL INCREASE IN MFT'S ROLE IN COOPERATION QUESTIONS-- IN THE DIRECTION OF ENCOURAGING MORE FLEXIBLE APPROACHES BY OTHER GOR ORGANIZATIONS. IN ONE RECENT CASE, FIRST DEPUTY MINISTER N. STEFAN OVERRULED A PROCEDURAL DIS-AGREEMENT BETWEEN CPC AND AGRICULTURE OFFICIALS, AROUSING RENEWED INTEREST BY THE FIRM IN A CORN PRODUCTS PROJECT. AT THE RISK OF SPEAKING TOO SOON, WE WOULD INTERPRET THIS AS A SIGN GOR IS MORE SERIOUSLY INTERESTED IN COOPERATION THAN WE WOULD HAVE JUDGED EARLIER THIS YEAR, AND THAT MFT MAY HAVE THE AUTHORITY TO FIND WAYS AROUND SOME OF GOR'S MORE ONEROUS BUREAUCRATIC HABITS.

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7. OBSTACLES REMAIN, HOWEVER, AND SOME ARE BACKED BY PRINCIPLES SET AT HIGH LEVELS. MANY FEATURES OF THE BARGAINING PROCESS HERE SEEM TO TAKE ON THE CHARACTER OF AN UNPLEASANT RITUAL FOR DOCUMENTING BARGAINING EFFORTS FOR THE FILES--EVEN WHEN THERE MAY BE LITTLE TO GAIN FOR THE GOR BARGAINER.

OF

A. WHAT APPEARS TO BE A FIRM REQUIREMENT THAT ANY JOINT VENTURE MUST QUICKLY COVER ITS OWN HARD CURRENCY COSTS BY EXPORTING OVER HALF OF TOTAL PRODUCTION FOR HARD CURRENCY -- ELIMINATES A LARGE PART OF ROMANIAN INDUSTRY FROM CONSIDERATION FOR JOINT VENTURES, AND FOREIGN FIRMS SEEKING MARKETS RATHER THAN PRODUCTION FACILITIES ARE LIKEWISE INELIGIBLE. NEGOTIATING TIME FOR A LICENSE OR "SALE OF TECHNOLOGY" IS SO MUCH SHORTER THAN FOR ANY VENTURE WHICH SHARES MARKETING RESPONSIBILITY THAT MANY PROJECTS SHIFT AWAY FROM JOINT VENTURES ONCE BARGAINING BEGINS.

B. ALTHOUGH PAYMENT IN PRODUCTS IS SOMETIMES WELCOMED BY US FIRMS, OFTEN IT IS RAISED TO AN EXPENSIVE AND SOMETIMES PROHIBITIVE REQUIREMENT, EVEN WHEN NO JOINT MARKETING VENTURE IS INTENDED.

C. THE REQUIREMENT THAT TECHNICAL AGREEMENT BE REACHED BEFORE COMMERCIAL NEGOTIATIONS BEGIN IS DISCONCERTING TO US FIRMS--A BASIC DISAGREEMENT OVER OBJECTIVES CAN THUS BE OVERLOOKED UNTIL AFTER LABORIOUS (BUT LESS CRITICAL) TECHNICAL FEATURES ARE IRONED OUT. YET ROMANIAN ORGANIZATIONS ARE OFTEN UNWILLING TO GIVE THE SLIGHTEST INDICATION OF THE PRICE RANGE OR COMMERCIAL TERMS THEY ARE WILLING TO CONSIDER UNTIL AFTER THEY HAVE SEEN A COMPLETE TECHNICAL OFFER. US FIRMS SOMETIMES BALK AT THAT REQUIREMENT, ASSUMING THAT GOR IS FISHING FOR TECHNICAL INFORMATION WITHOUT ANY INTENTION OF CONCLUDING AN AGREEMENT. YET EVEN GOR OFFICIALS CAN BE DISCOURAGED WHEN IT LATER TURNS OUT THAT THERE WAS NO BASIS FOR A COMMERCIAL AGREEMENT.

D. LACK OF SUFFICIENT DATA TO ATTRACT THE INTEREST

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OF A SERIOUS US FIRM IS A GREAT HANDICAP IN

PROMOTING A NEW PROJECT, ESPECIALLY WITH FIRMS NEW TO EASTERN EUROPE, BUT IT CAN ALSO LEAD TO INORDINATE DELAYS OR LOSS OF INTEREST AT LATER STAGES.

E. UNREALISTIC PERFORMANCE GUARANTEES AND PRODUCT STANDARDS CONTINUE TO PRESENT MAJOR OBSTACLES FOR NEW FIRMS AND GENERATE TRADE DISPUTES EVEN WITH MORE EXPERIENCED PARTNERS. THE FACT THAT EVERY DETAIL OF SUCH GUARANTEES MUST BE COVERED BY CONTRACT GREATLY PROLONGS NEGOTIATIONS, ESPECIALLY SINCE ROMANIA'S OBLIGATIONS FOR ITS INPUT INTO A PROJECT MUST BE SPELLED OUT IN EQUAL DETAIL TO PROTECT THE US FIRM. ROMANIA'S GROWING ABILITY--AND DETERMINATION--TO INCREASE ITS SHARE OF THE CAPITAL INPUTS INTO NEW PROJECTS MAKES THIS A PROBLEM AREA OF GROWING SIGNIFICANCE.

8. CONCLUSION: EMBASSY HOPES THESE SKETCHY OBSERVATIONS WILL PROVIDE USEFUL BACKGROUND FOR FORTHCOMING PRELIMINARY MEETINGS. SOME OF THE MORE STICKY ISSUES--SUCH AS PERFORMANCE GUARANTEES--DESERVE AN IN-DEPTH DISCUSSION, SINCE THEY ARE BASIC TO COOPERATION HERE (AND OTHER RELATIONSHIPS NOW CONSIDERED "IMPORTS", SUCH AS CONSTRUCTION OF THE OFFSHORE DRILLING RIG IN GALATI). NOW THAT THE CLIMATE FOR BILATERAL TRADE AND COOPERATION IS AT A PEAK, IT IS A GOOD YEAR TO BRING THEM UP. EMBASSY HAS NOT YET RECEIVED DRAFT AGENDA BUT WILL COMMENT WHEN RECEIVED.
BARNES

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